

1 A. If you were to track one unit of XRP
2 that was given away, how much it changed hands
3 after that point in time would be the velocity.

4 Q. So velocity just means how much it gets
5 traded around between accounts?

6 A. Correct. How much volume.

7 Q. And do you have an understanding of why
8 the XRP that was given away did not end up being
9 traded -- traded around between many accounts?

10 MR. GULAY: Objection.

11 A. At this point in time, my recollection
12 is that the XRP was generally given away for
13 nothing. And my assumption was that the people on
14 the receiving end immediately sold it for dollars
15 or bitcoin or something else.

16 Q. Okay.

17 A. But I don't have any way to know what
18 the large number of the people on the other end
19 thought.

20 Q. Was there a limit on the size of the
21 giveaways?

22 MR. GULAY: Objection;
23 foundation.

24 A. This was very early in my time at the
25 company, maybe the first month. And so I wasn't

1 privy to the discussion on the size of the
2 giveaway. I don't recall being part of that
3 discussion.

4 Q. Do you recall if there was a limit one
5 way or the other?

6 MR. HORTON: Objection.

7 A. I remember discrete programs with the
8 earmarks, numbers, attached to them in a large
9 amount of experimentation at that time.

10 Q. Okay. Going down in -- in your e-mail
11 to where -- do you see where the -- the word
12 "volume" is in bold?

13 A. Yes.

14 Q. And it says "Volume equals: One, amount
15 given away; and, two, ensuing trading volume in
16 receiving accounts."

17 Do you see that?

18 A. Yes.

19 Q. Okay. Am I understanding correctly that
20 what you're saying here is that the XRP that's
21 given away, if that is then traded in other
22 accounts, it's -- it's the ensuing trading that
23 contributes to the volume?

24 MR. GULAY: Objection.

25 A. My primary interest and focus was on

1 liquidity as the markets person. And so when a
2 unit of XRP was given away, my focus was on
3 whether that giveaway resulted in increased volume
4 or not, and I viewed it to be more successful of a
5 giveaway if more volume ensued as a result.

6 Q. Okay. And is that why you say here that
7 "the ratio of these would be an interesting metric
8 for us to track"?

9 A. That's correct.

10 Q. Okay. Did Ripple, in fact, track that
11 ratio?

12 A. I don't recall tracking it.

13 Q. Okay. We've talked a lot today about
14 liquidity. What does liquidity mean to you?

15 MR. GULAY: Objection.

16 A. I think the first few paragraphs of this
17 e-mail are a pretty good explanation of that.
18 That you can measure how liquid something is based
19 on how wide the market is, either the bid/ask
20 spread, and by how volume you can trade at those
21 levels.

22 Q. Okay. Is it fair to say that what
23 goes -- the factors that go into liquidity are
24 volume and price?

25 MR. HORTON: Objection to form.

1 A. I would say volume and size. I'm sorry,
2 bid/ask spread and size.

3 Q. Bid/ask spread and size. Is size
4 different than volume?

5 A. I think we're saying the same thing,
6 but -- but how -- how much size is available at a
7 given price or how much volume you can trade at
8 that price.

9 Q. I understand.

10 So what you say here, how much volume
11 you can trade at those levels?

12 A. Correct.

13 Q. Okay. So the sentence here at the top
14 of PR-4, your first sentence, that is an accurate
15 description of liquidity in your mind?

16 A. Yes.

17 Q. And just so it's in the record, it says
18 here "You typically measure how liquid something
19 is by talking about how wide the market is, i.e.,
20 bid/ask spread and how much volume you can trade
21 at those levels," yes?

22 A. Correct.

23 Q. Okay. Was Ripple tracking the liquidity
24 of XRP?

25 MS. BUNTING: Objection.

1 A. At this point in time, there were
2 relatively crude tools to track market activity,
3 including XRP, but not limited to XRP overall, and
4 those tools improved over time.

5 Q. Okay. And did -- did Ripple use those
6 tools to track the liquidity of XRP?

7 MR. GULAY: Objection.

8 A. My recollection is those tools were
9 generally open source and publicly available, and
10 I used those tools to monitor activity in the
11 market, including, but not limited to, XRP's
12 liquidity.

13 Q. What other activity did you monitor
14 while you were at Ripple?

15 THE REPORTER: Repeat.

16 Q. What other activity did you monitor
17 while you were at Ripple?

18 A. I had an interest in all trading
19 activity on the network. At this time bitcoin
20 against the dollar was a prominent trading pair
21 that didn't involve XRP, as one example.

22 Q. Okay.

23 MR. HORTON: Counsel, would now
24 be a good time for a break?

25 MS. STEWART: Sure.

THE VIDEOGRAPHER: Going off the
record at 12:01.

(Whereupon, a luncheon recess is
taken.)

1 A F T E R N O O N S E S S I O N

2 THE VIDEOGRAPHER: Okay. Back on
3 the record at 12:50.

4 Go ahead.

5 BY MS. STEWART:

6 Q. Okay. Mr. Rapoport, do you recall
7 before lunch we -- we looked at the -- the primer
8 that you had drafted and that you had sent to
9 Mr. [REDACTED] that was PR-6?

10 A. Yes.

11 Q. Okay. I think I forgot to ask you about
12 that document, whether there were other
13 individuals or firms that you sent the primer to.

14 A. My recollection of this was broad --
15 this was a broadly used document for nontechnical
16 people that wanted to familiarize themselves with
17 Ripple basics.

18 Q. Okay. When was the last time you spoke
19 with Mr. Griffin?

20 A. In the past month.

21 Q. Okay. Did you speak with him about this
22 litigation?

23 A. No.

24 Q. Did you speak with him about your
25 testimony?

1 A. No.

2 Q. Are you aware of whether Mr. Griffin has
3 been deposed in this matter?

4 A. I was aware that it did happen, yes.

5 Q. Okay. Did Mr. Griffin tell you that he
6 was deposed in this matter?

7 A. I was aware that he was in New York for
8 this matter and that was the extent of our
9 discussions about it.

10 Q. Did you speak with him after his
11 deposition?

12 A. I'm not sure exactly at what time during
13 his time in New York it happened. And so I spoke
14 with him during his time in New York. Whether
15 that was before or after, I'm not sure.

16 Q. Okay. Did you discuss with him at all
17 his testimony?

18 A. No.

19 MR. HORTON: Objection; asked and
20 answered.

21 Q. Okay.

22 MS. STEWART: We'll do 8.

23 Nicole, we're on PR-8.

24 (Whereupon, exhibit is presented
25 and marked SEC Rapoport Exhibit PR-8 for

1 identification.)

2 MS. STEWART: So for the record,
3 PR-8 is Bates numbered RPLI_SEC 0038399 to
4 400.

5 (Pause)

6 A. Okay. I've reviewed this.

7 BY MS. STEWART:

8 Q. Okay. Have you seen this document
9 before?

10 A. No.

11 Q. Okay. Do you have any --

12 A. Excuse me. I saw this -- I clearly saw
13 this back in 2013 because my name is on the
14 e-mail, but I haven't -- I don't remember it and
15 haven't seen it since then.

16 Q. Okay. Do you have any reason to doubt
17 that you had this e-mail exchange with [REDACTED]
18 [REDACTED]?

19 A. No, and I -- no, I don't.

20 Q. Okay. Who is [REDACTED]?

21 A. He is a representative of [REDACTED]
22 [REDACTED], which is a venture capital firm.

23 Q. Okay. And did [REDACTED] have a
24 relationship with Ripple?

25 A. My understanding is that [REDACTED]

1 [REDACTED] was a seed round investor in Ripple.

2 Q. Does that mean that their
3 relationship --

4 A. Sorry, Ripple Labs, I should say.

5 Q. Okay. Thank you.

6 Does that mean that their relationship
7 with Ripple Labs preceded your tenure at Ripple?

8 A. That's correct.

9 Q. And what is it that you and -- and -- is
10 it Mr. [REDACTED]?

11 A. Yes.

12 Q. Okay. What is it that you and Mr. [REDACTED]
13 are discussing in this e-mail?

14 A. Mr. [REDACTED] and Chris Larsen, and it looks
15 like [REDACTED] who's an associate of
16 Mr. [REDACTED] had a discussion without me about a
17 strategy described here to trade in the market
18 with the intent to lose XRP.

19 Q. Okay. And in -- in the top e-mail, your
20 e-mail to Mr. [REDACTED] at the top of the document, you
21 say "Yes, we are all on the same page that this
22 will be a 'distribution' strategy where you are
23 expected to lose XRP to the market, and the loan
24 will be forgiven."

25 Do you see that?

1 A. Yes.

2 Q. Okay. So what did you mean when you
3 wrote "distribution strategy" here?

4 A. I remember the scenario and I remember
5 thinking it was a nonsensical idea at the time and
6 the strategy did not make sense to me to achieve
7 any goal at all. But this was October 2013, when
8 I was relatively new at the company, and so I went
9 along with it largely because it was the CEO of
10 the company, Chris Larsen, encouraging this
11 interaction with two investors. So I didn't think
12 it was my place to voice my -- my disagreement
13 with the strategy.

14 Q. Okay. What is your understanding of
15 what the strategy was supposed to achieve?

16 A. In reading the e-mail, it sounds like
17 [REDACTED] had certain objectives described in
18 the e-mail, which he describes as "creating flow
19 to encourage the fundamental building blocks of
20 any market," or the market in this case. So it
21 appears that he thought this would increase
22 liquidity in the market, this strategy.

23 Q. And did you disagree with that?

24 A. I did disagree with that.

25 Q. And why?

1 A. I actually viewed this as a liquidity
2 destructive action. He describes "sweeping the
3 book back and forth," which what he means by that
4 is removing liquidity from what's posted in the
5 order book by buying and then selling and then
6 buying and then selling. To me, that's the
7 opposite of building liquidity. That's -- that's
8 removing liquidity from the market.

9 Q. Okay. Did you discuss your view with

10 Mr. [REDACTED]

11 A. As a newly hired employee put in this
12 discussion by the CEO of the company and speaking
13 to an investor, I didn't think it was my place to
14 dispute Mr. [REDACTED] views at this time.

15 Q. Did you discuss your views with
16 Mr. Larsen?

17 A. I don't recall if I did or I didn't.

18 Q. Did you discuss your views with
19 Mr. Griffin?

20 A. I don't recall.

21 MR. GULAY: Sorry. Just to
22 clarify, Mr. Rapoport, when you say
23 "speaking to an investor," did you mean an
24 investor in Ripple Labs, Inc.?

25 THE WITNESS: Yes. Mr. [REDACTED] was

1 an investor in Ripple Labs -- [REDACTED]

2 [REDACTED] was an investor in Ripple Labs,
3 Inc.

4 BY MS. STEWART:

5 Q. Okay. And when you say in the sentence
6 that we just read, "we are all in the same page
7 that this will be a distribution strategy," who is
8 the "we" that you're referring to in that
9 sentence?

10 A. I do recall having a conversation with
11 [REDACTED] on the phone that I reference in this
12 e-mail. I'm not certain whether the "we" refers
13 just to me and [REDACTED] or the four people in
14 this e-mail. The others are [REDACTED] and
15 Chris Larsen.

16 Q. Okay. Do you agree with Mr. [REDACTED] that
17 the "fundamental building blocks of any market are
18 speculators"?

19 A. No. I think speculators can play an
20 important role, but natural users of an asset can
21 be equally important as fundamental building
22 blocks of a market.

23 Q. So is it fair to say that you think that
24 there's two fundamental building blocks of a
25 market?

1 MR. HORTON: Objection.

2 MR. GULAY: Objection to form.

3 A. I think the answer to that depends on
4 how we define "speculators," but I think, in
5 general, people transacting in an asset are either
6 speculating in some form, whether short-term or
7 long-term holders, or they have some natural need
8 to purchase or sell the asset. For example, an
9 airline company has to buy jet fuel and the jet
10 fuel market can be speculators and natural users.

11 Q. Okay. So -- so together, the
12 speculators and the natural users would, in your
13 view, be the fundamental building blocks of any
14 market?

15 MR. HORTON: Objection to form.

16 A. Yeah, I think those are the primary
17 market participants of any market, yes.

18 Q. And at the time in 2013, were there more
19 speculators than natural users in the Ripple
20 network?

21 MR. HORTON: Objection to form.

22 A. I don't know that I can answer that. I
23 don't know that I know the answer to that.

24 Q. Well, did you have a sense that more of
25 the -- of the people who were -- who are holding

1 XRP -- let me -- strike that. Let me restart.

2 Did you have a sense that more of the
3 people who are buying XRP were buying it to
4 speculate on XRP as opposed to use XRP?

5 MR. GULAY: Objection to
6 foundation.

7 MS. BUNTING: Objection.

8 A. Any user of the Ripple network needed a
9 small amount of XRP based on the network design of
10 using XRP as an anti-spam mechanism. And I don't
11 think anyone has any way of knowing which users
12 were purchasing XRP for that purpose, for its
13 utility in -- in the network, or speculating on
14 it.

15 Q. That's not something that Ripple
16 tracked?

17 A. I'm not sure that there is a way to
18 track that because it's an open-source network
19 that anyone can participate in and it was --
20 there's, to my knowledge, no way to get that
21 information.

22 Q. Okay. Do you agree with Mr. [REDACTED]
23 statement at the very end of his e-mail that a
24 controlled appreciation of XRP is what Ripple
25 wants?

1 A. No.

2 Q. And why not?

3 A. To my knowledge, Ripple didn't have any
4 goals with respect to what the price of XRP should
5 or shouldn't do and that's what Mr. [REDACTED] seems to
6 be implying here.

7 Q. So Ripple's goal, or at least one of
8 Ripple's goals, was not to take steps to
9 appreciate the price of XRP?

10 MR. HORTON: Objection to form.

11 A. I believe that the company sought to
12 increase usage of the Ripple network and improve
13 liquidity in the market; and it's my belief that
14 those actions could lead to an increase in XRP
15 price, but I don't think that that's a given and
16 that's an ancillary effect that is my belief. And
17 so I don't believe the company had a direct goal
18 to influence the price of XRP.

19 Q. Did the company have a goal to decrease
20 the price of XRP?

21 MR. HORTON: Objection to form.

22 A. No, I don't think the company had any
23 goals with respect to the price of XRP whatsoever.

24 Q. So the company had no goals one way or
25 the other with respect to the price of XRP?

1 A. No. Not that I'm aware.

2 Q. This distribution strategy,
3 quote/unquote, that's referred to in your e-mail
4 with Mr. [REDACTED] did Mr. [REDACTED] firm, in fact,
5 pursue this strategy?

6 A. Yes. A version of this moved forward
7 shortly after these e-mails.

8 Q. Okay. And when you say "a version of
9 this," what do you mean?

10 A. I don't recall the specifics of exactly
11 how it was conducted, but I do remember that XRP
12 was sent to a representative of [REDACTED]
13 and that representative traded in the market. And
14 that's -- that's what I remember about it.

15 Q. That representative of [REDACTED]
16 traded in the market and intentionally lost the
17 XRP?

18 MR. HORTON: Object to form.

19 A. What I remember is that that person
20 removed a lot of liquidity from the order books,
21 meaning that they bought and sold and bought and
22 sold. I didn't have visibility or I don't have
23 recollection as to how much or what they lost
24 trading.

25 Q. How much XRP was given to [REDACTED]

1 [REDACTED] ?

2 A. I don't have any recollection of this,
3 but the e-mail says [REDACTED] XRP.

4 Q. And do you know how much XRP [REDACTED]
5 [REDACTED] lost?

6 MR. GULAY: Objection.

7 A. I don't have any recollection of whether
8 they made or lost money and how much.

9 Q. And where -- where you say here in the
10 top e-mail that "the loan will be forgiven,"
11 what -- what is that a reference to?

12 A. For reasons I don't think I fully
13 understood at the time, the company, when
14 distributing XRP in certain situations, was
15 treating it as a forgivable loan; that the -- XRP
16 would be transferred to somebody and then -- as a
17 loan, and that loan would be forgiven. I'm not
18 sure of the reasoning behind that structure.

19 Q. And did Ripple pursue this kind of
20 strategy with any other individual of the firm?

21 MR. HORTON: Objection to form.

22 A. I'm not aware of this type of trading
23 strategy being conducted again after this one
24 instance.

25 Q. Did you have a concern in 2013 whether

1 this kind of trading strategy could constitute
2 market manipulation?

3 MR. HORTON: Objection to form.

4 MR. GULAY: Objection.

5 A. I found it disruptive to the market. I
6 didn't have concerns about market manipulation at
7 this time.

8 Q. Sitting here today, do you have concerns
9 that this kind of strategy could constitute market
10 manipulation?

11 MR. HORTON: Objection.

12 MR. GULAY: Objection;

13 foundation.

14 A. I don't have enough knowledge of the
15 legal meaning of that to really have an opinion
16 without advice.

17 MS. STEWART: Nicole, the next
18 exhibit is PR-12.

19 And for the record, that's Bates
20 numbered RPLI_SEC 0461857 through 866.

21 (Whereupon, exhibit is presented
22 and marked SEC Rapoport Exhibit PR-12 for
23 identification.)

24 BY MS. STEWART:

25 Q. So, Mr. Rapoport, I plan to ask you

1 about your e-mail which is on the first page of
2 this document, but of course feel free to -- to
3 review the -- the rest of the e-mail chain.

4 (Pause)

5 A. Okay.

6 Q. Okay. Is it -- is it fair to say that
7 this document is an internal discussion at Ripple
8 about the pros and cons of a bond auction as a way
9 to distribute XRP?

10 MR. GULAY: Objection.

11 MR. HORTON: Objection to form.

12 A. I think this document is a general
13 discussion on how to get XRP off of Ripple's books
14 and into the market in various different ways.

15 Q. Okay. And the -- the title -- the "Re"
16 line of the e-mail, which I don't -- I don't think
17 you wrote, but it says "Giveaways versus auction
18 and pump priming."

19 Do you have a sense of what "pump
20 priming" means?

21 A. I'm not sure what that means.

22 Q. Okay. So in the e-mail that you write
23 on the first page of the document, which is
24 November 24th at 9:16 a.m., the -- the second
25 paragraph of your e-mail says "The bond auction

1 structure does seem to cleanly solve our
2 self-imposed goal of getting XRP off our books
3 without immediately flooding the market with XRP
4 supply/price pressure."

5 Do you see that?

6 A. Yes.

7 Q. Okay. And -- and was that -- was that
8 sentence accurate at the time you wrote it?

9 A. I think so, yes.

10 Q. Okay. And where you say "our
11 self-imposed goal," who is -- whose self-imposed
12 goal are you referring to?

13 A. In this e-mail chain, there's a
14 conversation between several senior members of the
15 company. And it's -- I interpret this to reflect
16 a strong desire to distribute XRP into the
17 marketplace and get a significant amount of it off
18 of Ripple Labs' books with some disagreement about
19 what the best strategy is to do that.

20 Q. So your statement in this e-mail is
21 based on the e-mails further down in the -- in the
22 chain of the document we're looking at?

23 A. Based on this e-mail and --

24 MR. HECKER: Objection to form.

25 A. Based on this e-mail and my recollection

1 of the dynamics at the company at the time.

2 Q. Okay. Did you have discussions about
3 this self-imposed goal other than what's reflected
4 in this e-mail with -- with your colleagues at
5 Ripple?

6 A. Yes.

7 Q. And what were those discussions?

8 A. I generally recall having discussions.
9 Given seven years have passed, I don't recall
10 specific discussions clearly.

11 Q. What do you recall generally about the
12 discussions?

13 A. I think this e-mail thread accurately
14 represents the fact that senior members of the
15 company viewed it as important to get XRP off the
16 books and that that was the goal in and of itself.
17 And there was discussion about whether that could
18 be done through a charitable process without the
19 company receiving economic benefit in exchange for
20 selling or giving away the XRP, but that there was
21 concern about harming the marketplace and
22 impacting liquidity in the marketplace if Ripple
23 Labs were to indiscriminately give away or donate
24 all the XRP versus employing other tactics like
25 the ones discussed in -- in this e-mail, including

1 selling XRP.

2 Q. So the reason that Ripple didn't want to
3 give away all the XRP was that it didn't want to
4 negatively impact the liquidity?

5 MR. GULAY: Objection.

6 MR. HORTON: Objection to form.

7 A. From early giveaways, it was evident
8 that the common result of a broad giveaway of XRP
9 was that the recipients immediately sold that XRP
10 and that that harmed market structure and the
11 price of XRP, neither of which were viewed to be
12 good outcomes.

13 Q. Okay. And in the sentence that we just
14 read in your e-mail, you say "XRP supply/price
15 pressure."

16 Do you see that?

17 A. Yes.

18 Q. What do you mean by "price pressure"?

19 A. While Ripple Labs did not, to my
20 knowledge, take actions to impact what the price
21 of XRP was, Ripple Labs certainly had a preference
22 for the price to rise rather than fall given that
23 it was a significant holder. And so in a similar
24 way to how ExxonMobil doesn't want to have its
25 actions collapse the price of oil since it's a

1 significant holder of oil, Ripple Labs was
2 cognizant of the fact that its actions in the
3 marketplace could have adverse consequences for
4 its balance sheet.

5 Q. So you -- you say in the next sentence
6 in your e-mail, "I want to carefully consider all
7 of the other structured products that we can come
8 up with that could accomplish the same goal."

9 Do you see that?

10 A. Yes.

11 Q. Did you and others at Ripple carefully
12 consider other structured products?

13 A. I know that we discussed a variety of
14 ideas. I don't know. We may disagree on what
15 "carefully consider" means.

16 Q. But you discussed other structured
17 products that could accomplish the goal that we
18 were just talking about?

19 A. Yes. We discussed a large number of
20 ideas.

21 Q. Okay. Can you tell me about some of
22 those ideas that you discussed?

23 A. The number of voices and tactics
24 described in this e-mail exchange I think are good
25 examples of the large number of out-of-the-box

1 ideas that were discussed, but given the amount of
2 time that's passed, the specifics of ideas are
3 difficult for me to recall.

4 Q. Did Ripple pursue this bond auction
5 strategy?

6 A. Not to my knowledge.

7 Q. Were there any other structured products
8 that -- that Ripple used to distribute XRP?

9 MR. GULAY: Objection.

10 To the extent you know.

11 A. I'm not aware of Ripple acting as the
12 issuer of a structured product to distribute XRP.

13 Q. You mentioned a moment ago that if
14 Ripple were to give away all of its XRP, that
15 would create liquidity issues.

16 Do I have that right?

17 MR. GULAY: Objection.

18 Q. I'm not trying to mischaracterize what
19 you said, but put it in your own words. I just --
20 I have a follow-up question to that.

21 A. When Ripple conducted straight giveaways
22 of XRP to large numbers of interested people, I
23 observed that to have an adverse impact on market
24 liquidity and price.

25 Q. Okay. Was the same true when Ripple

1 sold XRP?

2 A. At times it was true and at times it was
3 not true.

4 Q. Okay. When was it true?

5 A. When Ripple sold XRP at a discount to
6 market price, the purchaser could then go sell at
7 the market price and -- and make a quick profit.
8 And so that, in my view, had a similar neg --
9 adverse impact on liquidity and price.

10 Q. Okay. And so what were the instances
11 where it did not have a negative impact on
12 liquidity, the sales of XRP?

13 A. Those were the two examples where I
14 thought there was an obvious negative impact and I
15 can't -- I think other instances did not have the
16 same negative impact to my current recollection.

17 Q. So that was when XRP was sold either
18 with -- without a dis -- discount or with a
19 premium?

20 A. Correct.

21 Q. Okay. At the bottom of -- of the first
22 page of this e-mail that we're looking at, you say
23 "We want a sales team that can target -- "that can
24 target funds that specialize in thematic trades
25 with convex payouts."

1 Do you see that?

2 A. Yes.

3 Q. What do you mean by that?

4 A. In my view, digital assets generally,
5 and XRP specifically, are largely binary outcomes,
6 meaning that if we look five or ten years into the
7 future, I think the price of a given digital asset
8 will likely be a lot more today or zero -- a lot
9 more than today or zero. And that's what I mean
10 by a convex payout: Something that is likely to
11 either just go to zero or have an exponential
12 rise.

13 And thematic trade I think is referring
14 to trading on a -- a theme. I'm not quite sure
15 how to explain that.

16 Q. Okay. At this time in 2013, did you
17 think that XRP was going to go to zero or that it
18 would have exponential growth?

19 MR. HORTON: Objection to form.

20 MR. GULAY: Objection.

21 A. Like most early stage technologies, I
22 thought that the higher probability was going to
23 zero and that a small probability of a high price
24 was possible and that that tends to be something
25 that characterized this type of convexity.

1 Q. Okay. And did that view of yours change
2 during your time at Ripple?

3 A. No. I think that was a view I held
4 throughout my time at Ripple.

5 Q. Okay.

6 MS. STEWART: Nicole, we're --
7 we're doing PR-27 next.

8 (Whereupon, exhibit is presented
9 and marked SEC Rapoport Exhibit PR-27 for
10 identification.)

11 MS. STEWART: And PR-27 is Bates
12 numbered RPLI_SEC 425895 through 900.

13 BY MS. STEWART:

14 Q. And, Mr. Rapoport, I'm going to ask you
15 questions on the first page of this document and
16 your -- your e-mail that continues on to the top
17 of page 2, but of course feel free to review the
18 entire document.

19 (Pause)

20 A. Okay. I've read it.

21 Q. Okay. So looking at -- at your e-mail
22 which starts sort of midway through the first page
23 of the document, where you say "Two concerns
24 here."

25 Are you there?

1 A. Yes.

2 Q. Okay. So you say "On a 1 million"
3 dollar -- "1 million XRP transaction, there is
4 plenty of liquidity to easily purchase that amount
5 in the market. When we sell directly to someone,
6 it hurts our goal of achieving critical mass on
7 the exchange because we're detracting from" --
8 we're de -- "we're detracting from market volume."

9 Do you see that?

10 A. Yes.

11 Q. Okay. What do you mean by that? Or
12 what did you mean by that?

13 A. As a person focused on markets and
14 developing liquidity at the company, it was my
15 preference that the company did not sell over the
16 counter bilaterally to interested parties. I
17 thought it benefited the goal of building a liquid
18 market to force all interested buyers or sellers
19 to transact in the market where the volume is
20 publicly visible, accessible to others, and will
21 ultimately encourage the development of a liquid
22 market.

23 Q. So you would rather someone who wanted
24 to buy XRP do it on the exchange as opposed to
25 buying it from Ripple directly?

1 A. Correct. On the Ripple -- on the Ripple
2 Ledger itself at this time.

3 Q. Okay. And then you continue to say in
4 that paragraph, "We are also preventing XRP price
5 from rising, because the demand doesn't go to the
6 market."

7 Do you see that?

8 A. Yes.

9 Q. And what did you mean by that?

10 A. Markets respond -- the price of the
11 market responds to the actions of buyers and
12 sellers. And for a price to rise, there need to
13 be more buyers than sellers in the marketplace, in
14 the public marketplace. And if any interested
15 buyer came and bought directly from Ripple, from
16 Ripple Labs, that was preventing that same
17 buyer -- or -- or substituting that buyer from
18 going into the market and otherwise lifting offers
19 to -- which would typically increase the price.

20 Q. Okay. Is that what you mean by that
21 last sentence of the paragraph, where you say "If
22 everyone can buy from us, the price will never go
23 up"?

24 A. Correct. Theoretically, if -- if every
25 buyer bought directly from Ripple Labs and only

1 the sellers went to the market, the price would
2 only go in one direction: Down.

3 Q. Okay. And so am I understanding
4 correctly that you thought that over-the-counter
5 sales would hurt both volume and price?

6 A. That's correct.

7 Q. And then you go on to say in this
8 e-mail, "I'd question whether we should provide a
9 discount at all, even for large size. It would
10 make more sense to me to offer a 5 percent
11 premium."

12 Do you see that?

13 A. Yes.

14 Q. Did Ripple, in fact, stop at some point
15 offering discounts on these types of XRP sales?

16 MR. GULAY: Objection. I assume
17 you mean during the time of his
18 employment.

19 MS. STEWART: Yes.

20 Q. All of my questions are during the time
21 of your employment.

22 A. I didn't have responsibility for
23 Ripple's transactions with third parties. And so
24 I saw and knew about a limited number of what I
25 believe to be the total number of transactions.

1 What I saw varied a lot over time. I don't think
2 that there was a clear stopping point that I can
3 recall.

4 Q. In -- in the e-mail sort of near the top
5 of the document from Arthur Britto, do you see
6 that, at 12:42 p.m.?

7 A. Yes.

8 Q. So Mr. Britto says "I think we're trying
9 to serve two types of purchasers: One, bulk
10 purchasers for investment; two, bulk purchasers
11 for resale."

12 Do you agree with Mr. Britto's
13 statement?

14 A. I think logically he describes the two
15 things that a person could do after buying an
16 asset: They could hold it or they could sell it.
17 So I think, yes, that's logically true.

18 Q. Okay. But he doesn't mention here
19 people who are buying it to use it, right?

20 A. What do you mean by "use it"?

21 Q. To use it on the -- on the Ledger, on
22 the network.

23 A. His e-mail doesn't explicitly refer to
24 that. Parsing it, I think that there's two types
25 of use: One is the anti-spam functionality and

1 the other is using it as a bridge currency to
2 trade for another asset. Using it as a bridge
3 currency I guess is, in a sense, selling it,
4 but -- I'm a little confused by the question, but
5 this e-mail does not specifically refer to using
6 it, no.

7 Q. Okay. Was there wide use of XRP as a
8 brid -- bridge currency at this time in 2014?

9 MR. HORTON: Objection to form.

10 MS. BUNTING: Objection.

11 A. It was a fairly nascent network and
12 technology at the time. So I think in the global
13 sense, there wasn't broad use of Ripple for
14 anything at the time, but certainly there was some
15 use of XRP as a bridge currency.

16 MR. GULAY: I'm sorry. When you
17 said "broad use of Ripple" --

18 THE WITNESS: Sorry. XRP as a
19 bridge currency.

20 Q. Would you say that -- that though there
21 was some use, it was de minimis?

22 MR. GULAY: Objection to form.

23 MS. BUNTING: Objection.

24 A. There were certain technical features
25 that increased the use of XRP as a bridge currency

1 when implemented. And I don't recall if this is
2 before or after that. So it's difficult for me to
3 answer that question.

4 Q. Well, let's take it back, then, to the
5 beginning of your time at Ripple.

6 Was there a time when the use of XRP as
7 a bridge currency was de minimis?

8 A. Yes.

9 MR. GULAY: Objection.

10 Q. So in -- in this e-mail chain, the
11 e-mail right above, we're still on page 1,
12 Mr. Griffin says "Fully supportive of this view.
13 Adding [REDACTED] and Chris."

14 Do you see that?

15 A. Yes.

16 Q. Do you recall if Mr. Larsen ever
17 expressed a view on this issue?

18 MS. BUNTING: Objection.

19 A. On what issue?

20 Q. On the issue that's being discussed in
21 this e-mail chain.

22 MR. GULAY: Objection to form.

23 A. On the issue of selling at a discount?

24 Q. Yes.

25 A. I don't recall if Mr. Larsen had a

1 strong view one way or another on this issue.

2 Q. Do you remember discussing it with him?

3 A. I do generally remember having

4 discussions about it, yes.

5 Q. Okay. And so you don't recall if he had

6 a strong view.

7 Do you recall what his view was?

8 A. I remember discussing it, but I don't

9 remember the substance of those discussions.

10 Q. These types of -- well, let me take a

11 step back.

12 The -- the kind of sales that we're
13 talking about here, I think they're referred to in
14 the e-mail -- e-mail as "wholesale selling," is
15 that right?

16 A. I see Patrick refers to it as "wholesale
17 selling" in this e-mail.

18 Q. Okay. How did you refer to it during
19 your time at Ripple?

20 A. I would refer to these as
21 over-the-counter transactions --

22 Q. Okay.

23 A. -- or OTC.

24 Q. And was -- was there any kind of

25 limitation in terms of -- of the size of -- of

1 these over-the-counter transactions while you were
2 at Ripple?

3 MR. GULAY: Objection to form.

4 A. I had visibility to a limited number of
5 the transactions that Ripple ultimately engaged in
6 and so I'm not sure of the answer to that --

7 Q. Okay.

8 A. -- companywide.

9 Q. Were -- were these transactions
10 generally large transactions?

11 MS. BUNTING: Objection.

12 A. In this e-mail thread, there's a team of
13 people critical of the fact that a small
14 transaction is being conducted over the counter
15 and preferring them to be large transactions, and
16 that was a view that I held at the time.

17 Q. Okay. So is it fair to say that when
18 Ripple did engage in these types of
19 over-the-counter transactions, it generally
20 wouldn't have been for purposes of -- of currency
21 exchange, meaning small amounts that someone would
22 use on the Ledger?

23 MR. HORTON: Objection to form.

24 A. Could you repeat the question? I just
25 didn't understand exactly what you mean.

1 Q. Sure.

2 Is it fair to say that when Ripple was
3 engaging in these types of over-the-counter
4 transactions, the sales of XRP, there were
5 generally large bulk sales, not the types of
6 small -- small volumes that someone who'd be using
7 XRP as a bridge currency would -- would need?

8 MS. BUNTING: Objection.

9 MR. HORTON: Objection to form.

10 A. Again, I don't feel that I have the
11 information at the time even -- and I certainly
12 don't remember today, but didn't -- at the time
13 did not have enough visibility into the totality
14 of Ripple's transactions to understand that. The
15 limited number of transactions I saw tended to be
16 larger transactions.

17 I wouldn't agree that use of a bridge
18 currency necessarily needs to be a small size. I
19 think that could be a large or small size.

20 Q. What about the -- the transactions for
21 preventing the -- the spam feature that you
22 referred to? Would those be small or large?

23 MR. HORTON: Objection to form.

24 A. Generally speaking, those are very small
25 amounts that are designed to be low value in

1 dollar terms, but then a user of the network --
2 those fees scale to combat abuse. And so an
3 attacker on the network would face escalating fees
4 which could turn out to be very large dollar
5 amounts and -- yeah.

6 MS. STEWART: And, Nicole, the
7 next document is PR-35, which is Bates
8 numbered RPLI_SEC 0842611 through 614.

9 (Whereupon, exhibit is presented
10 and marked SEC Rapoport Exhibit PR-35 for
11 identification.)

12 (Pause)

13 A. Okay. I've reviewed this.

14 BY MS. STEWART:

15 Q. Okay. So I want to look at your e-mail
16 which is on page 1 of the document at 5:52 a.m.

17 Do you see that?

18 A. Yes.

19 Q. And I believe, and -- and please confirm
20 for me that you're responding to -- to some
21 questions in -- in the previous e-mail from

22 [REDACTED]

23 A. Yes, it appears that way.

24 Q. Okay. And who is Mr. [REDACTED]

25 A. I don't recall interacting with this

1 person apart from seeing this e-mail. But I see
2 in the e-mail signature that it says he worked for

3 [REDACTED]

4 Q. And do you know what that is?

5 A. It's a venture capital firm.

6 Q. And you -- you here are responding to a
7 question about the qualifications for wholesalers.

8 Do you see that?

9 A. Yes.

10 Q. And as it's used in -- in this e-mail,
11 the word "wholesaler," are you referencing the
12 over-the-counter sales that we talked about a
13 moment ago or something else?

14 A. I don't remember what I was -- my
15 thought process when writing this e-mail, but I
16 see that [REDACTED] used this terminology
17 "wholesale recipients" later in the chain. It's
18 not terminology that I would typically use
19 independently, but I -- I suspect that I used his
20 language to not cause confusion in an e-mail
21 chain.

22 Q. Okay. But the type of transaction
23 you're talking about is an over-the-counter
24 transaction?

25 A. Correct.

1 Q. Okay. So you say in the second
2 paragraph after the number 1, you say "In
3 addition, we occasionally receive inquiries from
4 individual investors looking to purchase large
5 amounts of XRP with no intention to resell to
6 third parties."

7 Do you see that?

8 A. Yes.

9 Q. So how many such inquiries do you recall
10 having received while you were at Ripple?

11 A. Given that six, seven, eight years have
12 passed, it's difficult for me to put a number on
13 it even as an estimate. I'd be guessing. But I
14 do remember that it did occur.

15 Q. Did it happen more than once?

16 A. Yes.

17 Q. Okay. And -- and did these investors
18 express to you that they didn't have an intention
19 to resell to third parties?

20 A. I believe this would be contrasting to
21 someone who's explicitly saying they intend to
22 sell to third -- sell to third parties, but I
23 don't recall having any kind of guarantee or
24 written agreement with somebody that they wouldn't
25 do that.

1 Q. Meaning that there were some investors
2 who specifically told you that they did intend to
3 sell to third parties and there were some who
4 didn't tell you one way or the other?

5 A. In this e-mail thread, it talks about
6 people who were "resellers." And so I believe
7 this sentence is contrasting a purchaser who
8 doesn't intend to resell with someone who is
9 explicitly saying they are going to resell to
10 third parties.

11 Q. Okay. And -- and would you say that
12 most of the -- the individuals and firms you were
13 interacting with expressed to you that they did
14 intend to -- to resell the XRP?

15 MR. HORTON: Objection to form.

16 A. Too difficult for me to remember
17 specifics to really give an accurate answer to
18 that.

19 Q. Did -- did Ripple place any restrictions
20 on the resale of XRP by these individuals and
21 firms that you were interacting with?

22 MR. GULAY: Objection;
23 foundation.

24 A. I recall certain discussions about
25 "lockups," but I was not aware of any mechanism